



# CITY OF SAN ANTONIO

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SAN ANTONIO TEXAS 78283-3966

June 13, 2006

Mark Swann, CPA, CIA, CISA  
Interim City Auditor  
111 Soledad, Suite 600  
San Antonio, TX 78205

RE: Management's Corrective Action Plan for the Audit of the Finance Department – Hotel/Motel Occupancy Tax Collection Process

City Management and the Finance Department have reviewed the audit report for the City's Hotel/Motel Occupancy Tax (HOT) Collection Process and herein is a Corrective Action Plan for the recommendations. Having an objective review of this process has resulted in better information for Management to develop operating strategies for the future.

|    | Detailed Report  |                   |                                   |                                 |                 |
|----|--|-------------------|-----------------------------------|---------------------------------|-----------------|
| #  | Description  | Audit Report Page | Accept, Partially Accept, Decline | Responsible Person's Name/Title | Completion Date |
| 1. | <b>Management and Internal Control Issues</b>  |                   |                                   |                                 |                 |
|    | The Finance Department Director should improve Management and internal controls by implementing the following:   |                   |                                   |                                 |                 |
|    | • Establish formal written procedures  | 10                | Accept                            | Gary Johnson, Tax Assessor      | 07/01/06        |
|    | <b>Action plan:</b> The Finance Department will update its formal written HOT procedures based on SAP functionality.   |                   |                                   |                                 |                 |
|    | • Develop, monitor, track, and report performance measures   | 10                | Accept                            | COMPLETED                       | 05/01/06        |
|    | <b>Action plan:</b> The Tax Assessor maintains data on monthly HOT collections and percentage increase/decrease from the prior year. This report is available to the Finance Director upon request. The Convention & Visitors Bureau publishes the Monthly Measure and TAP report which compares monthly and year-to-date HOT revenue to the prior year. |                   |                                   |                                 |                 |
|    | • Segregate duties regarding the billing, recording, depositing, and reconciliation  | 10                | Accept                            | COMPLETED                       | 02/01/05        |
|    | <b>Action plan:</b> Segregation of duties regarding the billing, recording, depositing, and reconciliation was implemented in February 2005.   |                   |                                   |                                 |                 |

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|   | <ul style="list-style-type: none"> <li>Evaluate the use of a commercial lock box for high value, low volume type of transactions.</li> </ul>  | 10 | Decline | Gary Johnson,<br>Tax Assessor                          | N/A      |
| <b>Management comment:</b> A lockbox solution is not feasible for receipt of HOT payments as customers remit payment without an invoice. As an alternative the use of on-line reporting and payment via the COSA website will be explored in the near future.   |   |    |         |  |          |
|   | <ul style="list-style-type: none"> <li>Reconcile HOT payments received, posted in the City's ERM/SAP System, and deposited in the bank account.</li> </ul>                            | 10 | Accept  | COMPLETED  | 01/01/05 |
| <b>Action plan:</b> Reconciliation of HOT payments posted and deposited utilizing SAP was implemented in January 2005 when SAP became functional for processing of HOT payments.  |   |    |         |  |          |
|   | <ul style="list-style-type: none"> <li>Enforce City Ordinance 67104 and refer delinquent accounts to the City Attorney's office to ensure timely collection</li> </ul>                | 10 | Accept  | Partially Implemented<br>Gary Johnson,<br>Tax Assessor | 07/01/06 |
| <b>Action plan:</b><br><p>The Finance Department is working with the ERM support team to establish SAP reporting to monitor hotels for compliance with required monthly HOT reporting. Further, the Finance Department written HOT procedures will detail specific timelines for dunning letters/notices and referral of non-compliant accounts to the City Attorney's Office.</p> <p>The Finance Department's Compliance and Resolution Office began performing randomly selected site visits to verify gross revenue and authorized exemptions in November, 2005. To date, 30 HOT reviews have been completed; these reviews have generated \$161,264 in additional net HOT revenue.</p> <p>The Finance Department has coordinated with Development Services Department to generate a report of hotels, motels, bed &amp; breakfasts, etc. who have been issued a Certificate of Occupancy. This report will be generated quarterly and compared to a SAP database to insure all hotels are reporting HOT in compliance with the City Code. Additionally, the Bexar Appraisal District has been contacted regarding a similar report to insure compliance for properties outside the city limits.</p> |   |    |         |  |          |
|   | <ul style="list-style-type: none"> <li>The Finance Department Director should re-evaluate current resource requirements and assign full-time Staff based on process needs.</li> </ul> | 10 | Accept  | Ben Gorzell<br>Jr., Acting<br>Finance<br>Director      | 09/01/06 |
| <b>Action plan:</b> The Finance Department is being re-organized and resources are be realigned to meet mission requirements.   |   |    |         |  |          |


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|--|--|---------|-------------------------------|-----|--|
| 2.   | Financial Accounting and ERM/SAP System Configuration Issues |         |                               |     |  |
| The Finance Department Director should coordinate with ITSD to implement ERM/SAP System improvements to address:   |  |         |                               |     |  |
| <ul style="list-style-type: none"><li>Processing HOT transactions and reporting, including the use of data uploads.</li></ul>  | 12   | Decline | Gary Johnson,<br>Tax Assessor | N/A |  |
| <b>Management Comment:</b> Although the processing time has increased with the SAP application, the Finance Department feels the current processing of HOT payments provides the appropriate controls for posting HOT payments (e.g. calculating taxable HOT revenue, interest, etc.). |  |         |                               |     |  |

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|  | <ul style="list-style-type: none"> <li>Calculating interest for delinquent accounts.</li> </ul>   | 12 | Accept | COMPLETED  | 05/01/06 |
| <b>Action plan:</b> SAP functionality now includes interest calculations on delinquent HOT receivables, thereby eliminating the possibility of human error.  |   |    |        |  |          |
|  | <ul style="list-style-type: none"> <li>Calculating monthly accruals</li> </ul>  | 12 | Accept | COMPLETED  | 10/01/05 |
| <b>Action plan:</b> SAP functionality now includes the ability to calculate HOT accruals based on historical collections; this HOT accrual method was utilized beginning in October 2005.  |   |    |        |  |          |
|  | <ul style="list-style-type: none"> <li>The Finance Department Director should review accounts receivable and accrual balances for duplicate transactions recorded in the ERM/SAP System.</li> </ul> | 12 | Accept | Partially Implemented<br>Gary Johnson,<br>Tax Assessor | 06/01/06 |
| <b>Action plan:</b><br>SAP functionality now includes configuration for recording the reporting period for HOT payments.<br>The Finance Department is working with the ERM support team to generate end of the day detailed reports which will reconcile individual customer payments to the daily deposit.<br>The Finance Department has updated SAP to include all outstanding HOT receivables as of September 30, 2004. |   |    |        |  |          |

|   |  |    |        |                               |          |
|---|--|----|--------|-------------------------------|----------|
| 3.  | <b>Bexar County's Inter-local Agreement Issues</b>   |    |        |                               |          |
|   | The Finance Department Director should develop a fee to be charged to Bexar County for processing and collecting HOT payments on their behalf, which is updated annually based on actual expenses. | 14 | Accept | Gary Johnson,<br>Tax Assessor | 12/31/06 |
| <b>Action plan:</b><br>The Finance Department will explore the possibility of amending the current contract with Bexar County to provide for increasing costs associated with this service. The current contract provides of fee of ½ of 1% of the gross HOT collected with a maximum fee of no more than \$50,000 per calendar year. |  |    |        |                               |          |

The Finance Department appreciates the City Auditor's comments on the HOT collection process. We are committed to addressing the recommendations in the audit report and the plan of action presented.

Sincerely,



Ben Gorzell Jr., CPA  
Acting Finance Director



Sheryl L. Sculley  
City Manager